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RR RUEHGH
DE RUEHIN #0049/01 0090150
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FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 3654
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3518
RUEHBJ/AMEMBASSY BEIJING 6166
RUEHUL/AMEMBASSY SEOUL 8370
RUEHGP/AMEMBASSY SINGAPORE 6739
RUEHKO/AMEMBASSY TOKYO 8351
RUEHML/AMEMBASSY MANILA 9886
RUEHJA/AMEMBASSY JAKARTA 3973
RUEHKL/AMEMBASSY KUALA LUMPUR 3623
RUEHHI/AMEMBASSY HANOI 3187
RUEHBY/AMEMBASSY CANBERRA 4404
RUEHWL/AMEMBASSY WELLINGTON 1670
RUEHHK/AMCONSUL HONG KONG 7396
RUEHGH/AMCONSUL SHANGHAI 0677
RUEHGZ/AMCONSUL GUANGZHOU 9859

UNCLAS SECTION 01 OF 02 TAIPEI 000049

SIPDIS

SIPDIS

STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/LMOGHTADER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [EIND](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: Taiwan Takes Over Two More Banks

REF: (A) 06 TAIPEI 4175, (B) 05 TAIPEI 2546

SUMMARY

1. (U) Only three weeks after taking over the insolvent Taitung Business Bank (TBB, reported ref A), Taiwan ordered takeover of two more banks, one insolvent and the other suffering a bank run. Financial regulators guaranteed 100%-protection of deposits to prevent financial instability. END SUMMARY.

Enterprise Bank of Hualien Insolvent

2. (U) On the afternoon of January 5, Taiwan's Financial Supervisory Commission (FSC) ordered the Central Deposit Insurance Corporation (CDIC) to take over Enterprise Bank of Hualien (EBH, Hualien Qiyin). FSC indicated that EBH had lost capability to fulfill its liability obligations. FSC had repeatedly urged EBH to improve its financial status on its own ever since Taiwan's legislature in June 2005 denied additional funding for the Financial Reconstruction Fund (FRF), equivalent to the Resolution Trust Corporation (RTC) in the United States (ref B), to support EBH and several other problem banks. However, EBH has failed to raise additional capital from major shareholders or from prospective domestic and foreign investors.

3. (U) FSC referred board directors and key executives of EBH to law enforcement agencies for investigation and requested they be barred from transferring properties or from leaving Taiwan. EBH has 31 banking offices, including 19 in Taipei City and County and eight in Hualien. By November 2006, EBH reported negative net

worth of NT\$7,781 million (US\$239 million). Its capital adequacy ratio was negative 17.73%. Its non-performing loan ratio reached 30%, the highest among local banks.

Second Takeover

¶4. (U) Only 90 minutes after the FSC's January 5 announcement on EBH, FSC received a request from Chinese Bank (CB, Zhonghua Yinhang) to take over CB because the bank was suffering a run caused by the reorganization announcement of China Rebar and Chia Hsin Food & Synthetic Fiber, its two major shareholder companies. On the afternoon of January 5, depositors withdrew NT\$15 billion (US\$461.5 million) from CB, with a long line waiting even after office hours.

¶5. (U) In response, FSC ordered CDIC to take over CB and assured 100% protection of deposits with CB. Until the possibility of illegal conduct is investigated, the FSC suspended all CB board directors from their duties and urged law enforcement agencies to restrict them from transferring properties or leaving Taiwan. Although CB suffered a pre-tax loss of NT\$5,267 million (US\$162 million) in 2006, its net worth was still positive NT\$10,017 million (US\$308 million). Its non-performing loan ratio was 8.13%, higher than the 5% limit set by the FSC. With official support, CB remains open, though on January 8 customers continued to withdraw funds. According to FSC Vice Chair Susan Chang, CB customers pulled out NT\$7.6 billion (US\$233.8 million).

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Insufficient Funds

¶6. (SBU) Premier Su Tseng-chang, Central Bank Governor Perng Fai-nan, and Minister of Finance Ho Chih-chin all supported the FSC's 100% guarantee of deposits at EBH and CB. However, combined with the the CDIC's recent takeover of Taitung Business Bank (TTB) in the mid-December 2006 (ref A) this obligation could easily exceed funding available for resolution of other problem banks. According to CDIC, the funding available to the FRF prior to the recent three takeover cases totaled only NT\$53 billion (US\$1.6 billion).

¶7. (SUB) By delaying funding for the FRF since 2002, the legislature has stymied the efforts of financial regulators to fully resolve Taiwan's banking crisis of ¶2001. Problem financial institutions that should have been shut down long ago have been allowed to continue doing business. Delays in dealing with the remaining problem banks will postpone Taiwan's development of an efficient banking sector.

YOUNG